

Are Prediction Markets A Disruption Risk or Incremental Market Expansion?



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Despite investor concerns that prediction markets could represent a meaningful medium-to-long-term competitive threat to traditional land-based and online gaming operators, we believe the degree of disruption is likely to be more limited than currently feared.

Gaming stocks have recently experienced two major waves of valuation derating driven by fears of market share disruption. The first emerged in late 2021 through 2022, as the post-pandemic surge in leisure and travel spending normalized while online sports betting operators continued to report rapid growth in both betting handle and gross gaming revenues (GGR). As additional states legalized iCasino, or slots and table games on mobile devices, investors naturally began to question if casino patrons would still leave the comfort of their homes to visit land-based casinos. As a result, land-based casino trading multiples contracted while online operators traded at significant premiums given their growth company status.

Ironically, online sportsbook operators now face a similar dynamic. The proliferation of prediction markets has raised concerns around potential cannibalization of the regulated online sports betting industry, which after roughly eight years of post-PASPA expansion had finally begun to show a credible path toward mature-market profitability. The US sports betting market is essentially a duopoly, with FanDuel and DraftKings together controlling approximately 70-75% of the market, BetMGM holding ~10-15%, and Caesars Entertainment in fourth at ~5% share. This structure has emerged across roughly 40 US states plus Washington, D.C.

According to the American Gaming Association, total U.S. gross gaming revenue (“GGR”) reached \$78.6 billion in 2025, representing 9.2% year-over-year growth versus 2024. Traditional land-based casinos accounted for \$50.9 billion of GGR, while sports betting generated approximately \$17.0 billion. iGaming contributed the remaining \$10.7 billion.

With legal sports betting now operating across 41 jurisdictions, the U.S. market has scaled to a meaningful size, though it remains highly fragmented on a state-by-state basis. Several large jurisdictions, most notably California and Texas, remain notable white spaces and represent two of the largest untapped opportunities for future market expansion. Against this backdrop, prediction markets have emerged as a parallel mechanism for sports-event wagering, operating outside the traditional state-based gaming and licensing framework.

In Section I of this whitepaper, we lay out the background of the current debate and legislative precedents to inform how the legislative debate may be resolved. In Section II, we discuss the implications for both land-based and online sportsbook operators. Finally in Section III, we provide our view on how the legislative debate could play out.

Section I: Background

What is the history of gaming regulation at the state level?

The United States Constitution implicitly established that gaming was left to the states to regulate under ‘police powers.’ As described in a 1954 US Supreme Court case; “public safety, public health, morality, peace and quiet, law and order. . . are some of the more conspicuous examples of the traditional application of the police power.” The Tenth Amendment further defined state and federal jurisdiction, “the powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people.”

The Professional and Amateur Sports Protection Act (PASPA), passed in 1992, was essentially a prohibition on states to legalize sports betting outside of a few jurisdictions which already had legal sports wagering, such as Nevada. In 2018, the Supreme Court decision on *Murphy vs. NCAA* repealed PASPA based on the Court’s interpretation of the Tenth Amendment.

What is the history of financial derivatives regulation at the federal level?

The origins of the federal government’s oversight of derivatives markets began over 100 years ago. In the 1920s, grain farmers relied on futures contracts to hedge risk related to their crops via intermediaries like grain elevator buyers and merchant brokers. What started as a legitimate economic practice eventually became subject to excessive speculation and market manipulation. In response, Congress passed the Grain Futures Act in 1922, requiring commodity exchanges to be federally regulated. The Grain Futures Act was then replaced by the Commodity Exchange Act (CEA) in 1936 to expand authority over a wider range of commodities. At the time, the CEA was under the authority of the Department of Agriculture.

The original congressional intent of the Grain Futures Act and subsequently the CEA was to eliminate excessive speculation and prevent manipulation, while at the same time not inhibiting the use of futures markets for legitimate hedging purposes. Direct language from the Congressional record states:

“Excessive speculation in any commodity under contracts of sale of such commodity for future delivery ... causing sudden or unreasonable fluctuations or unwarranted changes in the price of such commodity, is an undue and unnecessary burden on interstate commerce.” “Such limits shall not apply to bona fide hedging transactions or positions”¹

By 1970, derivative markets had expanded beyond agricultural commodities to include a greater variety of economic inputs for businesses including interest rates and currencies. As derivatives became based more on financial rather than solely agricultural markets, it became appropriate to move oversight from the Department of Agriculture. In 1974, Congress amended the CEA and created a new regulatory body, the Commodity Futures Trading Commission (CFTC), with exclusive jurisdiction over futures markets and commodity options.

¹ Commodity Exchange Act, Pub. L. No. 74-675, § 4a, 49 Stat. 1491, 1496–97 (1936).

What are Prediction Markets?

A prediction market is a financial derivative trading platform, whereby swaps or event contracts are traded between buyers and sellers. An event contract is a binary option, or a financial contract based on the occurrence or non-occurrence of a defined event within a definitive timeline. Contracts are structured essentially as yes-no questions and pay a fixed amount, typically \$1.00 if an event occurs, and zero if the event does not occur.

As was true for financial derivatives traded as far back as 1920, prediction markets potentially serve two legitimate purposes, price discovery and risk hedging. Many news networks have official data partnerships with prediction market platforms and there are cases to be made of specific contracts providing investors with the ability to hedge event risk. Prediction markets are seen by critics as a proxy sportsbook, with an estimated 85-90% of Kalshi contracts based on sporting event outcomes.

According to Forbes, prediction market trading volumes are on pace to exceed \$325 billion in 2026. That would represent over six hundred percent growth from \$44 billion in 2025. Despite the eye-popping numbers, prediction markets are still a small slice of online sports betting which is estimated to be \$17 billion of GGR. Comparing trading volume and betting handle is apples and oranges as trading volume captures both sides of trade, takes the notional value of the contract (payout) versus the amount wagered, and also counts secondary trading if a position is closed out. Conversion rates from betting handle to trading volume can range anywhere from 5-20x. Most industry pundits currently estimate prediction contracts represent a low-single-digit market share of overall sports wagering.

How are Prediction Markets Regulated?

Federal regulation of prediction markets is predicated on their classification as financial swaps. The Dodd-Frank Wall Street Reform and Consumer Protection Act, better known as Dodd-Frank, formally brought swaps under the federal oversight of the CFTC. There are some limitations given the definition of swaps which will likely play a role in future legislative debate.

In theory, swaps and event contracts must relate to events that have an economic consequence. This is reflected in the statutory language of the CEA:

“that provides for any purchase, sale, payment, or delivery (other than a dividend on an equity security) that is dependent on the occurrence, nonoccurrence, or the extent of the occurrence of an event or contingency associated with a potential financial, economic, or commercial consequence.”

Additionally, Section 745 amended the CEA to empower the CFTC to ban derivative contracts that are deemed contrary to public interest. The law specifically identified certain categories concerning negative impact to public interest, namely: war, terrorism, assassination, gaming, and activities unlawful under federal or state law.

Section II: Implications for Land-Based and Online Operators

Regardless of whether sports betting on prediction markets are ultimately found to be legal at the federal level, we do not think it will pose an existential threat to the traditional gaming industry. Federal jurisdiction over sports event contracts will have more of an impact on state, and particularly tribal governments. The American Gaming Association estimated that \$15.9 billion of gaming tax revenue was paid to state and local governments in 2024. While only about 1% of total state tax collections, losing those revenues would put further pressure on budgets.

More importantly, any loss of gaming revenue would have significant adverse consequences for tribal governments and the communities they serve. Gaming remains a critical economic engine for approximately 42% of federally recognized tribes (243 of 575), supporting essential government services, economic development, and community investment. This underscores the importance of pursuing an equitable solution that preserves the economic interests of tribal nations.

Land-Based Casinos

Land-based casinos have historically been cautious around the potential market share and cannibalization risks posed by the growth of online betting and gaming. In our view, the greatest pressure is likely to fall on smaller, convenience-oriented local casinos with limited non-gaming amenities, although the impact may be moderated by habitual customer behavior and loyalty. In contrast, larger integrated resort operators appear better positioned, as consumers continue to value live entertainment, social experiences, and destination-oriented leisure spending that cannot be fully replicated online.

As a result, growing online penetration may continue to accelerate the Las Vegas-style trends toward diversified and experience-driven revenue models. Major casino operators have steadily expanded their non-gaming offerings through luxury dining, concerts and sporting events, spas, nightlife, golf simulators, retail, and broader leisure ecosystems designed to increase visitation and wallet share beyond gaming alone.

Notably, the data thus far suggests online gaming has been more complementary than disruptive to the broader gaming industry. According to the American Gaming Association, traditional land-based casino GGR increased 2.3% year-over-year to a record \$50.9 billion in 2025. While table games revenue declined modestly (-0.7%), the sector's overall record performance suggests that the expansion of online sports betting and iGaming has thus far supplemented total gaming demand rather than materially cannibalized physical casino activity.

Online Sportsbooks

Prediction markets introduce a parallel wagering channel that could encourage states to accelerate or expand regulation of traditional sports betting to capture tax revenues and ensure consumer protection. Strategically, they present both threats and opportunities for the regulated sports betting industry. FanDuel and DraftKings have opted to strategically hedge themselves by launching their own prediction market offerings, allowing them to participate in wagering demand even in states without sports betting legislation. However, this expansion has not been without cost: it has strained relationships with regulators, most notably in Nevada, where prediction market exposure has been deemed incompatible with licensed gaming activity. As a result, both operators have withdrawn from Nevada, effectively choosing to prioritize prediction market expansion over maintaining access to the state.

While Nevada has historically been a limited economic contributor for FanDuel and DraftKings, it remains a more strategically important market for omni-channel operators BetMGM and Caesars Entertainment, both of which have so far avoided entering prediction markets in order to maintain full regulatory alignment. The result is a clear divergence in strategy: FanDuel and DraftKings are willing to trade near-term EBITDA progression for a larger addressable market, while Caesars and BetMGM remain more focused on optimizing returns within a narrower, state-by-state regulated footprint and accelerating free cash flow generation.

Growing the Pie

If tolerated by regulators and the courts, sports-event contracts could expand the overall US betting and gaming market by broadening access beyond the traditional sportsbook customer base and filling structural gaps in today's fragmented regulatory framework.

Recent data from Eilers & Krejcik Gaming (EKG) suggests that prediction markets are currently serving largely incremental demand rather than materially cannibalizing regulated sportsbooks. According to EKG, ~69% of sports-event contract activity originates from states without legal online sports betting, with ~43% coming from California and Texas alone. This dynamic could ultimately increase pressure on legislators to regulate sportsbooks directly in order to capture tax revenues and provide stronger consumer protection. Prediction markets also expand accessibility beyond the existing sportsbook ecosystem. While most regulated sportsbooks require users to be 21+, federally regulated prediction market platforms are generally accessible nationwide to users aged 18 and older. As a result, sports-event contracts may broaden the addressable market by reaching consumers in non-regulated states as well as younger adult demographics that currently lack access to regulated sportsbook products.

Importantly, early indications suggest that, in states where online sports betting is already legal, prediction markets have thus far represented only a low-single-digit share of overall wagering activity, presenting a limited competitive threat to incumbent operators today.

Section III: What will happen next?

There are now over four dozen active lawsuits, enforcement actions, cease-and-desist orders, and proposed legislative bills in the escalating battle between prediction markets and the regulated gambling industry across multiple US jurisdictions.

Eventually the debate over jurisdiction of prediction markets, particularly sports-event contracts offered by platforms such as Kalshi and Polymarket, centers on whether these products fall under federal derivatives oversight through the CFTC or should instead be treated as state-regulated sports betting products. We see two potential paths toward resolution. The first would involve an amendment to the CEA to provide explicit clarity on whether sporting event contracts are permissible, requiring action from Congress and the President. The second path would involve greater legal clarity through judicial interpretation of the existing law, potentially culminating in a US Supreme Court opinion.

The amendment path seems unlikely given the challenge of getting the 60 required votes in the Senate to overcome the filibuster and demands on legislative capacity. We see the second path through the Supreme Court as the most likely scenario. The 3rd circuit ruled in favor of the CFTC. Currently, the 9th circuit is reviewing and is expected to decide in favor of state jurisdiction. If the 9th circuit does decide in favor of the states, the split circuit sets up a path to the Supreme Court.

Until greater legal clarity emerges, prediction markets and regulated sportsbooks are likely to continue operating in parallel, with jurisdictional uncertainty remaining a key overhang on competitive positioning, market structure, and valuation frameworks across the US gaming sector.

Let's Talk Stocks

Flutter Entertainment plc (FLUT - \$104.45 -NYSE), headquartered in New York City, NY, is the world's largest online-led gaming operator by revenues. The company operates a portfolio of leading brands including FanDuel, Sky Betting & Gaming, Paddy Power, PokerStars, Sisal, and Betfair across Europe, the Americas, and Australia. Flutter's product suite spans sportsbook, iGaming, pari-mutuel wagering, lottery, and daily fantasy sports, and now includes prediction markets. FanDuel has established itself as the clear market leader in US online sports betting, consistently maintaining ~40% national market share. This position has been sustained in a highly competitive environment through product leadership, a differentiated and user-friendly customer experience, and disciplined promotional spend. Its proprietary pricing and risk management capabilities have enabled product innovation, including higher-odds parlay offerings, supporting structurally higher gross gaming margins. Management's 2026 US EBITDA guidance of ~\$1.05bn came in below expectations, reflecting both conservative handle assumptions and a planned \$200-300m investment in FanDuel's prediction market platform, FanDuel Predicts. The product is live and offers event contracts across financial markets, commodities, and cryptocurrencies, as well as sports contracts in states where online sports betting is not yet legal. As additional states legalize online sports betting, FanDuel Predicts is expected to withdraw sports event contracts in those markets, effectively serving as a bridge to future OSB regulation rather than a permanent substitute.

DraftKings (DKNG- \$23.57 - NASDAQ), headquartered in Boston, MA, operates across online and retail sports betting, iGaming, daily fantasy sports, digital lottery courier, horse racing, and prediction markets. The company launched DraftKings Predict in late 2025 and is integrating it into a broader "Super App" product. In March 2026, DraftKings began rolling out DraftKings Sports & Casino, a unified platform combining Sportsbook, Predictions, Casino, and Lottery within a single account and wallet, with product access tailored by jurisdiction. Management expects this integrated ecosystem to enhance cross-sell, deepen customer engagement, and improve unit economics across verticals. DraftKings sees a \$55-80 billion North American GGR total addressable market, driven by continued OSB and iGaming legalization, growth in existing jurisdictions, and expansion into new verticals, including an estimated ~\$10 billion incremental opportunity from prediction markets. The company's 2026 outlook of ~\$6.5 billion in revenue and ~\$800 million of EBITDA came in below consensus expectations (~\$7.3 billion and ~\$970 million, respectively), reflecting ongoing investment in its prediction markets platform and launches in new jurisdictions. Over the longer term, DraftKings is targeting 60-80% adjusted gross margins for its Predictions offering (vs. 50%+ in sportsbook), benefiting from structurally lower promotional intensity and the absence of state gaming taxes. In effect, DraftKings is investing to expand its ecosystem and scale higher-margin verticals, positioning the business for stronger long-term profitability.

Entain plc (ENT- £5.49 - LSE), headquartered in London, England, and **MGM Resorts International** (MGM - \$38.24 - NYSE), based in Las Vegas, NV, formed BetMGM as a 50/50 joint venture in 2018, combining Entain's proprietary technology stack with MGM's brands and land-based casino footprint. BetMGM has established itself as the third largest operator in US online gaming, with a mix more weighted toward iGaming than sports betting. BetMGM is not pursuing prediction markets and has reiterated its \$500 million EBITDA target for 2027, reflecting a more conservative strategic posture relative to peers. The business has increasingly focused on higher-value, premium customers, with Nevada remaining a key differentiator given its omni-channel positioning. Handle grew +11% YoY in 1Q26, supported by cross-channel engagement despite softer mass-market leisure trends. MGM previously attempted to acquire Entain in January 2021 in a stock transaction valuing the company at £13.83 per share. While Eminence Capital's wind-down removes a source of activist influence, we believe Entain's remaining shareholder base would remain supportive of a strategic transaction to unlock value. In the absence of a takeover or a potential BetMGM carve-out, we continue to see compelling underlying value in Entain's core brand portfolio and proprietary technology platform, which underpin sustainable long-term earnings growth.

Caesars Entertainment (CZR - \$27.41 -NASDAQ), headquartered in Las Vegas, Nevada, operates a diversified portfolio of 52 casino properties across 18 states, with sports wagering operations in 34 jurisdictions, including 27 with online sports betting and five with iCasinos. The company's digital offerings are primarily delivered through the Caesars Sportsbook and Caesars Palace Online Casino apps. Caesars has consistently targeted approximately \$500 million of adjusted EBITDA from its digital segment, underpinned by an expected revenue growth rate of roughly 20% and incremental flow-through of approximately 50%, reflecting the benefits of scaling against a largely fixed cost base. The company continues to make measurable progress toward this objective, given their decision not to pursue a prediction market product at this time so as to stay in compliance with state gaming regulators and not put any of their land-based licenses at risk. As a result, there has been no delay to profitability targets from an incremental investment cycle.

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